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FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC 0770
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 0372
RUEHGB/AMEMBASSY BAGHDAD 0051
RUEHOR/AMEMBASSY GABORONE 0108
RUEKJCS/SECDEF WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000227

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E.O. 12958: DECL: 04/30/2019

TAGS: [PGOV](#) [KCOR](#) [ECON](#) [NI](#)

SUBJECT: NIGERIA: EDO STATE EMPOWERING THE ELECTORATE WITH
TAXATION

REF: A. 08 LAGOS 477

[1](#)B. 08 LAGOS 514

Classified By: Consul General Donna Blair, Reasons 1.4 (B,D)

[1](#)1. (C) Summary. On April 28, officials of the new Action Congress (AC) administration of Governor Adams Oshiomhole in Edo State outlined to PolOff and PolSpec the initiatives of the new government to reduce costs and fraud while increasing revenue and efficiency. Officials welcomed the dramatic drop in federal allocations, seeing this as an opportunity to empower the electorate by ending the dependence on allocations derived primarily from oil revenue in favor of internally generated revenues, mainly taxes. Officials argued that the increased stake of the taxpayer in revenue generation would force the kind of transparency and accountability necessary for good governance. State officials identified a number of areas where the state has an urgent need for capacity building. The appointees of Governor Oshiomhole who met with PolOff all came from the private sector and have impressive credentials. They demonstrated a high degree of commitment and competence and appear highly motivated to effect change in Edo state. If the Oshiomhole government delivers on its promises, it will become an important example of the effectiveness of democracy in Nigeria. End Summary.

Declining Federal Allocations Represent Opportunity

[1](#)2. (C) On April 28, the Edo State Commissioner of Budget, Planning and Economic Development, and the Commissioners of Finance, Information, Agriculture and Education, and the Chairman of the Policy Monitoring Committee of Edo State outlined to PolOff and PolSpec the policies, priorities and challenges of the administration of Governor Adams Oshiomhole. (Note: A former Nigerian Labour Congress leader, Adams Oshiomhole ran for governor of Edo State on the Action

Congress ticket in 2007, but the PDP candidate Oserheimen Osunbor was declared the winner by the Independent Nigerian Electoral Commission (INEC). Oshiomhole successfully challenged the elections in the courts and was finally sworn in as governor on November 12, 2008. End Note.) The Commissioners pointed out that the monthly revenue allocations to Edo State from the Nigerian Federal Government had fallen from Naira 2.8 billion (\$19 million) in February to Naira 1.9 billion (\$13 million) in March due to the reduced price of crude oil. Godwin Obaseki, Chairman of the Policy Monitoring Committee described this as an "opportunity," claiming that everyone in the state realized there could no longer be "business as usual." Obaseki's comments were echoed by the Commissioner of Budget, Planning and Economic Development, Ahansi Uruigbe, who welcomed the drop in federal allocations because they forced the state to cut costs and increase internally generated revenue. The focus on internally generated revenues, he argued, would empower voters by increasing their stake in government expenditures. Uruigbe said that only when the government is spending their taxes will the electorate insist on the accountability necessary for good governance. He also stated that the Oshiomhole government was committed to transparency and accountability so that tax payers could see exactly where their tax naira are being spent.

Independence through Taxation

13. (C) The Commissioner for Finance, John Inegbedion, told

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PolOff and PolSpec that at present internally generated revenues amount to only Naira 300 million (\$2 million) per month, or less than 15% of state revenues. In comparison, he claimed that in Lagos State 80% of revenues are internally generated. Inegbedion attributed the low level of tax revenues in Edo State to an antiquated tax structure, inadequate enforcement and manual processing of taxes. Edo State has set the goal of generating Naira 1.5 billion (\$10 million) internally each month.

14. (C) Inegbedion claimed that the current tax base was at least 15 years old. He noted that people are living in million dollar homes but paying only \$200 in taxes each year.

The Oshiomhole government has increased these tax rates 100 fold to \$20,000, a rate which Inegbedion claims is still "very affordable" for the people living in these expensive homes. A second example of increased tax rates was for private schools, which, Inegbedion said had previously paid only \$80 per year for their licenses, while each pupil paid \$3,000 in annual tuition. With public schools lacking roofs, books, desks and benches, he said, it was time for the private schools to contribute more to the tax base of the state thereby enabling investment in public education facilities.

15. (C) A second important means of increasing state revenues, according to Inegbedion, will be to enforce existing laws. He claimed that people were harvesting timber in the state without paying for the required licenses. He also noted that in the past political insiders had been allocated government land extrajudicially on which they had built housing complexes and businesses. According to Inegbedion, tenants on these developments were charged rents, but the developers paid neither taxes nor rent to the State. In the future, he said, the tenants would pay their rent directly to the state.

16. (C) Finally, according to Inegbedion, the state has allocated Naira 1 billion (\$6.8 million) to automating the tax collection system using biometrics and software similar to that employed in Lagos State. This is scheduled for implementation by the end of July 2009. Inegbedion believes the automation will result in a significant reduction in "leakages."

Cutting Costs

¶17. (C) According to Obaseki of the Policy Monitoring Committee, Oshiomhole has ordered all his ministries to cut overhead costs by 50%. (Note: monthly overhead costs for all ministries in Edo State currently run at roughly Naira 500 million (\$3.4 million). Obaseki said that to achieve the 50% reduction, all ministries would have to focus on eliminating fraud, corruption and waste. A first step in this direction has been the introduction of biometric ID for all employees of the state, which is expected to reduce payroll fraud. In addition, according to Obaseki, a transparent procurement process has been put in place by way of a government directive. (Note: The State House of Assembly is dominated by the PDP and can be expected to block AC-led anti-fraud legislation. End Note.) Obaseki claimed that initial cost estimates for the renovation of Government House dropped from Naira 30 million (roughly \$204 thousand) to Naira 3 million (\$20 thousand) as a result of the existing directive. Last but not least, automation will be introduced into the payroll system.

Capacity Building Not Cash is the Solution

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¶18. (C) The Edo State officials who met with PolOff stressed that despite the challenges of the current budget situation, they do not see lack of funding as the most serious challenge facing the state but rather lack of capacity. The Commissioner of Budget, Uruigbe, claimed that he was the only person in his entire ministry who was familiar with Microsoft Excel, adding that basic IT training for his entire staff would greatly improve efficiency and reduce waste. He also requested assistance in building capacity with respect to budget planning and project management. Both Uruigbe and Inegbedion stressed the need to train staff in the fundamentals of public sector finance and the need to provide leadership and management training to their permanent secretaries and directors. The Commissioner of Agriculture requested assistance in capacity building in entrepreneurial skills for farmers as well as training for his staff in the fields of food storage, food processing, seed multiplication and containing animal-based epidemics.

¶19. (C) Comment: All the state officials whom PolOff and PolSpec met came from the private sector with impressive resumes. They claimed to have given up substantially greater salaries for the opportunity to serve in Oshiomhole's government because they believe he can bring positive change.

It was particularly notable that the commissioners and the Chairman of the Monitoring Committee, although meeting separately with PolOff, provided very consistent stories regarding the State's priorities and achievements and consistent facts regarding specific financial information. If nothing else, that is evidence of a political administration that can stay "on message" and is well versed in the details, a competence often lacking in Nigerian state and local governments. Post notes that the high level of internally generated funds has allowed Lagos State, also controlled by the AC, to act independently of Abuja and believes that the Oshiomhole government will demonstrate independence from the Federal Government, particularly if dependence on federal allocations can be reduced significantly. If the Oshiomhole government can deliver on its promises, it will become an important example of the effectiveness of democracy in Nigeria. End Comment.

¶10. (C) This cable has been cleared by Embassy Abuja.
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